



State Board of Equalization

News Release

Vice Chair Michelle Steel

3rd District – Orange County

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Executive Director
www.boe.ca.gov

**For Immediate Release
August 6, 2014**

NR 116-14-S
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Board of Equalization Adopts Regulation Simplifying Gratuity Reporting

Sacramento – Members of the California State Board of Equalization (BOE) adopted a regulation to ease compliance with reporting tips and service charges collected in restaurants on August 5, 2014, in Culver City.

"California sales tax rules are so complicated that any reform can be a great help to taxpayers," Vice Chair Michelle Steel said. "This regulatory change will make it easier for restaurant owners to understand and report taxable or non-taxable tips."

The restaurant regulation establishes a presumption that restaurants are correctly reporting taxable mandatory service charges to the BOE when their records are kept consistent with guidance from the Internal Revenue Service (IRS). An IRS ruling issued in June 2012 provided information on the difference between optional tips (which are not subject to sales tax) and mandatory service charges (which are). For example, a pre-arranged, set percentage of the bill that is charged for large parties at restaurants is a taxable service charge.

When the regulation is codified the changes will apply to sales made on or after January 1, 2015. This will give time to enable restaurateurs to make any necessary changes in record keeping or systems to streamline their processes.

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Elected to the Board of Equalization in 2006 and re-elected in 2010, Michelle Steel serves as *Southern California's elected taxpayer advocate*. In December 2007, Steel discovered the Board of Equalization had delayed the return of millions of dollars in security deposits owed to California businesses. Procedures were changed due to Steel's decisive leadership. Following her investigation, the tax agency refunded tax security deposits to over 5,500 small businesses. To date, over \$100 million in security deposits have been returned to taxpayers.

The five-member California State Board of Equalization (BOE) is a publicly elected tax board. The BOE collects \$56 billion annually in taxes and fees supporting state and local government services. It hears business tax appeals, acts as the appellate body for franchise and personal income tax appeals, and serves a significant role in the assessment and administration of property taxes. For more information on other taxes and fees in California, visit www.taxes.ca.gov.

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